

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
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FM AMEMBASSY LONDON
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INFO AMEMBASSY BRUSSELS
AMEMBASSY BONN
AMEMBASSY PARIS
AMEMBASSY ROME

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 06779

USEEC

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E.O. 11652: GDS
TAGS: EGEN, EFIN, PEPR, PINT, UK
SUBJECT: THE CALLAGHAN INITIATIVE AND UK CONCERNS
ABOUT THE JULY SUMMIT

REF: (A) LONDON 5647; (B) LONDON 4312; (C) LONDON 6526

1. THE CALLAGHAN INITIATIVE -- HIS ATTEMPT TO COAX
THE KEY INDUSTRIALIZED NATIONS INTO AGREEMENT ON A
PROGRAM FOR ECONOMIC GROWTH ACCOMPANIED BY GREATER
MONETARY STABILITY -- IS NOW WELL INTO ITS SECOND
MONTH AND NOT FARING TOO WELL. BUT THE ASSESSMENT
DIFFERS, DEPENDING ON THE SOURCE: LABOR PARTY ACTIVIST
ARE GLOOMY; CIVIL SERVANTS, WHOSE EXPECTATIONS WERE
LOWER, LESS SO.

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2. DISCUSSION OF THE CALLAGHAN INITIATIVE AND OF ITS
RECEPTION HAS LACKED SOME PRECISION DUE TO THE CLOSENESS
WITH WHICH INFORMATION REGARDING MEETINGS IN WASHINGTON,
COPENHAGEN, AND LONDON, HAS BEEN HELD. LACK OF
KNOWLEDGE HAS NOT, HOWEVER, PREVENTED SPECULATION,
PARTICULARLY AMONG POLITICAL SOURCES.

3. CALLAGHAN'S OWN REPORTS ON THE MEETINGS IN WASHINGTON JUST BEFORE EASTER WERE EUPHORIC. HOWEVER, AS TIME PASSED, BRITISH GOVERNMENT OFFICIALS BEGAN TO WONDER JUST HOW MUCH OF THE EUPHORIA COULD BE ATTRIBUTED TO CALLAGHAN'S CONTINUED ATTACHMENT TO THE SPECIAL RELATIONSHIP AND TO THE WARM AND RECEPTIVE TREATMENT ACCORDED HIM BY PRESIDENT CARTER, AND HOW MUCH TO ACTUAL RESULTS. SOME BEGAN TO WONDER IN PARTICULAR ABOUT THE U.S. RESPONSE TO CALLAGHAN'S POINT ON MONETARY STABILIZATION. THEY DETECTED THAT CERTAIN SPECIFIC PROPOSALS LIKE FOREIGN CURRENCY BORROWING ARE NOT WELCOME IN WASHINGTON. WHILE FEW WOULD DENY THAT THERE IS A LIMIT TO PROBABLE DEPRECIATION OF THE DOLLAR, FEARS HAVE GROWN THAT THE DOLLAR MAY BE STRENGTHENED BY UNFAVORABLE DEVELOPMENTS SUCH AS A DOWNTURN IN U.S. BUSINESS ACTIVITY, OR BY CONSCIOUS GOVERNMENT POLICY UNDERTAKEN WITH A VIEW TO REDUCING THE RATE OF INFLATION.

4. ASSESSMENTS DIFFER MORE CLEARLY WITH REGARD TO THE COPENHAGEN SUMMIT. POLITICAL SOURCES SEE THREE DEFECTS IN WHAT SEEMS TO HAVE EMERGED FROM THAT MEETING. FIRST, ONE OF THE MAJOR POINTS OF THE CALLAGHAN FIVE-POINT PROGRAMME, RENEWED ECONOMIC GROWTH - IMPLYING HIGHER GROWTH ON THE PART OF SURPLUS COUNTRIES - SEEMS TO HAVE BEEN PUT INTO THE SHADOW BY EMPHASIS ON MONETARY

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STABILITY. SECONDLY, THE EMPHASIS WAS EUROPEAN, RATHER THAN THE GLOBAL CALLAGHAN APPROACH, WHICH SPECIFICALLY INCLUDES THE U.S. FINALLY, THE SORT OF STABILITY THAT SEEMS TO BE SOUGHT BY THE SOMEWHAT UNEXPECTED COMBINATION OF JENKINS, GISCARD, AND SCHMIDT IS BEING DESCRIBED AS AN ENLARGED SNAKE. PARTICULARLY FOR LABOR PARTY FIGURES, THIS IS AN UNPALATABLE SCHEME. THEY SEE LITTLE POSSIBILITY OF AT THE SAME TIME MAINTAINING A CLOSE RELATIONSHIP BETWEEN THE POUND AND THE DEUTSCH MARK, AND ON THE OTHER HAND, ACHIEVING A SATISFACTORY RATE OF BRITISH ECONOMIC GROWTH. AT LEAST ONE CABINET MINISTER (SEE REF A) HAS TOLD US THAT CALLAGHAN SHARED THIS UNHAPPY REACTION TO THE COPENHAGEN SUMMIT DESPITE THE FACT THAT, WHEN HE RETURNED, HE GAVE THE HOUSE OF COMMONS A REASONABLY FAVORABLE, IF VAGUE ACCOUNT OF THE COPENHAGEN EUROPEAN COUNCIL.

5. ON THE OTHER HAND, CIVIL SERVANTS HAVE BEEN MORE NUANCED AND SOMEWHAT LESS NEGATIVE IN THEIR READING OF THE SITUATION. SOME OF THEM HAVE ADMITTED TO A LACK OF DETAILED KNOWLEDGE OF JUST WHAT WAS DISCUSSED ON MONETARY QUESTIONS IN COPENHAGEN. THEY ALL ARE WILLING

TO EXPRESS VARIOUS DEGREES OF CYNICISM ABOUT THE

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POTENTIAL FOR EUROPEAN MONETARY UNIFICATION. BUT,
PERHAPS HAVING LOWER EXPECTATIONS, THEY TEND TO THINK
THE COPENHAGEN COUNCIL WAS NOT THAT BAD A SHOW. THEY
TEND TO PICK OUT FROM IT POSITIVE ELEMENTS SUCH AS
THE GERMAN AGREEMENT TO A 4-1/2 PERCENT GROWTH TARGET
FOR THE COMMUNITY - THOUGH THEY HAVE TO ADMIT THAT
GERMAN STATEMENTS SINCE THEN HAVE CAST DOUBT ON
GERMANY'S REAL AGREEMENT WITH THIS TARGET.

6. THE CALLAGHAN-SCHMIDT MEETINGS OF APRIL 23-24 WERE
CONDUCTED WITH THE SECRECY THAT'S BY NOW BECOME HABITUAL
ONLY THE PRINCIPALS ATTENDING THE KEY CHEOUERS MEETING
OF SUNDAY EVENING--ON THE BRITISH SIDE, THE PRIME
MINISTER, CHANCELLOR HEALEY, HAROLD LEVER, AND BANK
OF ENGLAND GOVERNOR RICHARDSON--KNOW JUST WHAT WENT ON;
TO DATE THEY'VE NOT TOLD OFFICIALS. HOWEVER,
CALLAGHAN AND SCHMIDT DID HOLD A TELEVISED PRESS CON-
FERENCE (REF C).

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7. DURING THAT TV APPEARANCE THE TWO STATESMEN WERE TRYING HARD TO MINIMIZE ANY IMPRESSION THAT THERE ARE SERIOUS DIFFERENCES BETWEEN THEM. SCHMIDT WENT SO FAR AS TO AGREE THAT ECONOMIC STIMULATION MIGHT BE IN ORDER BUT ONLY AS THE SECOND OR THIRD STEP, AFTER THE FIRST STEP OF MONETARY STABILIZATION. HE ALSO ARGUED THE CASE THAT MONETARY STABILIZATION WITHIN EUROPE (A) WOULD BE HELPFUL TO THE U.S. AND (B) WOULD NOT EXCLUDE THE U.S.

8. HOW DO PROSPECTS LOOK TO BRITISH OBSERVERS? IT IS CLEAR THAT DIFFERENCES REMAIN BETWEEN THE BRITISH AND THE GERMANS, AND IT IS NOT CLEAR HOW OR WHEN THE GAP WILL BE BRIDGED. THE IMF INTERIM MEETING MAY INDEED WITNESS A NEW DISPLAY OF THE DIFFERING NUANCES BETWEEN THE TWO, SINCE BRITAIN AND GERMANY APPARENTLY ARE PLACING DIFFERENT EMPHASES ON THE STUDY OF THE WITTEVEEN PROPOSALS FOR THE EXCHANGE OF THE DOLLAR RESERVES FOR SDRS. IT IS LIKELY THAT THE AD HOC MEETINGS PREOARATORY TO THE JULY SUMMIT WILL WITNESS SERIOUS DISCUSSION. BUT SOME BRITISH OBSERVERS, WHILE NOW MORE CONFIDENT THAT SCHMIDT WILL DO SOMETHING TO STIMULATE THE GERMAN ECONOMY, DOUBT THAT HE WILL REVEAL HIS INTENTIONS UNTIL, AT THE EARLIEST, JUST BEFORE THE BONN SUMMIT.

9. WHAT OF THE OTHER SIDE OF THE TRIANGLE? THERE WAS A PERIOD IN WHICH SOME PEOPLE HERE, PARTICULARLY IN THE LABOR PARTY, FEARED THAT CALLAGHAN'S WARM RECEPTION IN WASHINGTON WOULD PRODUCE LITTLE OR NO TANGIBLE RESULTS IN TERMS OF ACTION TO STRENGTHEN THE DOLLAR. BUT THE RECENT ACTIONS OF THE FRB (TO RAISE INTEREST RATES) AND OF THE TREASURY (GOLD AUCTIONS) HAVE DAMPENED SUCH

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FEARS.

10. IT'S STILL "EARLY DAYS" FOR THE CALLAGHAN INITIATIVE, AND OFFICIALS, PARTICULARLY, ARE DISINCLINED TO PREJUDGE ITS EFFECTIVENESS. THERE IS, HOWEVER, A WORRIED ATTITUDE WITHIN THE LABOR PARTY. FOR A TIME--JUST AFTER THE COPENHAGEN SUMMIT WHEN IT APPEARED THAT THE BALL WAS BEING GRABBED FROM CALLAGHAN BY SCHMIDT AND OTHERS, AND THEN CARRIED IN A DIFFERENT DIRECTION--THEY FEARED THE WHOLE PROCESS UP TO AND INCLUDING THE SUMMIT WOULD NOT ADD MUCH TO CALLAGHAN'S DOMESTIC

POLITICAL LUSTER AS A LEADER OF THE INDUSTRIALIZED
NATIONS. THEY STILL WONDER WHETHER THE SUMMIT WILL
PRODUCE RESULTS THAT WILL CONTRIBUTE TO BRITAIN'S OWN
RECOVERY. SINCE CALLAGHAN'S DOMESTIC POLITICAL
STRATEGY RESTS HEAVILY ON THE HOPE THAT WORLD RECOVERY
WILL PROMOTE BRITISH RECOVERY, THIS IS A WORRYING
PROSPECT.

BREWSTER

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